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A BALANCED INDUSTRIAL SYSTEM—DISCUSSION

Roy G. BLAKEY.—It appears to me that Professor Carver has been hearing, on the one hand, the plaints and agitation of labor leaders, socialists, bolshevists, and other radicals, and, on the other hand, the counter plaints of business men, the social reformers, and others with their proposals for legislation; and he has longed for the good old days of *laissez faire*. He has said, Why run after new and false gods? Why not remain faithful to the true and never changing Jehovah, for He is the only true God?

Professor Carver deserves credit for putting an old doctrine in a new light, for making us rethink our old ideas. I am not one of those who decry theory. In fact, I think it the most practical of all practical subjects, the foundation or, to change the figure, the mariner's chart which is a *sine qua non* of intelligent thinking, planning, and progress in all lines.

Professor Carver has made many statements, however, which either lack clarity or beg the question. All of us are prone to do the same thing. In truth, I am not certain that any of us can discuss theory which in the last analysis turns to philosophy and its ideals without begging the question much of the time. Let me give a few of many examples from the paper which has just been read:

1. Professor Carver uses the illustration of a balanced soil. It is balanced when it is composed of the proper constituents for producing what you want to produce. But it is not then balanced for producing other things. What determines the things for which you want it balanced? Why wheat rather than rye, or rice, or beef or butter, or a hundred other things? Where does one get the idea of the desirability of a balanced system, anyway, and what determines whether or not it is balanced?

2. "By a balanced industrial system is meant a system in which every essential function is as *well* and *adequately* performed as every other."

3. "When the market is *truly* or *properly* balanced, it will also be a *just* and *satisfactory* price."

4. "There can be no *true* economic balance unless the *marginal productivity* of labor is the same in different occupations." Professor Carver seems to have overlooked or minimized questions of demand which are fully as important as those of supply.

5. "The *indispensable* man can get what he wants."

6. "One means of creating a balanced industrial system is undoubtedly an *effective* system of popular education."

Because of the indefiniteness of statements like the following it is difficult to make definite criticisms, but some of their implications are inconsistent with other points made in the paper, or would lead to unwise inaction.

1. "A by-product of this balanced condition is that laborers need *none* of those *special aids or helps* in bargaining that most of us have tolerated and some have advocated in the past."

2. "Another result would be to make most of our social legislation unnecessary."

The italics in the above quotations are mine.

Education that paid no attention to the physical and mental quality of the race would not bring about Professor Carver's balanced system in a thousand years. In other words, as he himself has suggested elsewhere, genetics, immigration control, and other methods which involve more radical legislation than what he seems to decry, would be involved if much progress is to be made in the ordinary lifetime of a nation.

Professor Carver says: "But what would happen to our educational system after the industrial system was once balanced up? It is obvious that one of the functions, namely, that of balancing up the system, would have been performed and, to that extent, it would seem to have made itself unnecessary." The task of preserving the balance already achieved appears to him as a very minor one; to me it appears rather large. Every important invention, every major weather cycle would throw the system out of balance. Suppose, for instance, that our industrial system had been perfectly balanced for centuries prior to the Industrial Revolution. Either an industrial revolution such as actually occurred would have been impossible or man's complex of laws, institutions, and traditions adapted to the slow moving centuries prior to 1775 would have made it humanely impossible for the industrial system to have maintained a balance in the face of such a revolution.

Until human nature and the world generally change very radically, man and his environment will be dynamic, and his industry must be dynamic also. As long as industry is dynamic, the only kind of equilibrium that can be secured is a moving equilibrium, somewhat like that of a bicycle or an aeroplane, not like that of a building on a solid foundation. The problem is to maintain a moving equilibrium in the direction of progress; to prevent society from getting so many falls and bumps that life or progress will be impossible; or to keep the balance so that the most progress for the entire race is possible. Unlike a bicycle or aeroplane, an industrial system is in more danger of losing its equilibrium the faster it goes because its progress is uneven, some parts get much ahead of other parts, some lag far behind, so that the danger of falling is greatly increased.

But we have not said a great deal when we have said this. We still have to define progress and the means of promoting it. The definitions are almost as various as the definers; our problems still remain with us. What is a "satisfactory" price which brings about a "true equilibrium" or a "true economic balance," is a matter of opinion. What constitutes *desirable* social legislation is likewise a matter of opinion, as is also, "an effective system of popular education." In this connection let me add that it is just as important to educate demand as to pay attention to supply.

All of us will agree that if the proportion of unskilled laborers is

decreased and the proportion of managerial ability greatly increased, other things remaining equal, the former will receive higher, and the latter lower, compensation than now. It is even conceivable that wages for managers might become lower than those for ditch diggers. But to make such a result stable within ten generations would probably require more radical social legislation,—for example, along the lines of genetics or birth control,—than is humanly possible. That is, it would involve social legislation so radical in character and extent that most proposed social legislation, and that which is frowned upon in Professor Carver's paper, would seem conservative beside it. It is easy to say "if everybody would obey the golden rule," or "if we maintained a true economic equilibrium everybody would be happy," but the fact is, these if's stand as stubborn obstacles to the achievement of our Utopias.

That they are stubborn obstacles is no reason why we should not make the best endeavors possible to overcome them. Because men get hungry after they eat is no reason for denying them food in the first instance. We can perhaps lessen hunger and poverty and possibly unrest or dissatisfaction, though this is problematical. Most of these things are comparative and to a large extent incommensurable.

When Professor Carver proposes "an effective system of education," or desirable social legislation, or doing away with undesirable social legislation, most of us hasten to agree. Disagreement will not appear until some concrete proposal is made; then we will approve or disapprove according to our individual notions of what is "true," "unsatisfactory," and "effective" in the achieving of ends which we individually think or feel are desirable.

"Effective" education, that is, education which would obviate unrest, must have telescopic foresight. It should be able to foresee or control, for at least two generations in advance, all of the important disturbing causes of industrial equilibrium; that is, it should be able to foresee or control the inventions, the discoveries, the weather cycles, the population trends, and the wars of the next half century, at least.

All of us are agreed that effective education and wise social legislation are desirable; all of us have been striving to promote both for some years. What we need are some concrete proposals that are practical, not merely proposals that are feasible *if*, and *if*, but some which are feasible in view of our existing forms of government, laws, institutions, traditions, and human nature. Furthermore, we need to have these proposals presented in the proper form, by the proper sponsors, to the proper authorities in such a way as to get results.

If the American Economic Association as such is unwilling to sponsor or advocate any practical action, it should at least promote the organization of subsidiary corporations or associations which can do something practical. The Associations for Labor Legislation and for Agricultural Legislation which Professor Carver would condemn, at least, under his balanced system, are examples of steps in the right direction. The possibilities in these fields have been reached only in

part as yet, and there are several other important fields in which the economists should organize and work in such a way as to shape or influence legislation profoundly. To say merely that we should have less legislation rather than more is to evade the issue. The fact is that we are going to have legislation whether economists want it or not. The practical thing to do is for economists to recognize this fact and endeavor to shape the legislation in the proper directions. The railroads, foreign trade, public finance, industrial relations, and other fields present immediate and urgent problems in which the economists of the United States ought to give more effective aid than they are now giving. Many economists are doubtless pondering in their own closets about what our legislators have done or may do about these problems. A few individuals actually advise them and take some real part in legislation occasionally, but our contribution as economists is pitifully small as compared with what it might be if we organized and united our forces.

There is at least one fundamental condition which I shall mention that it is necessary to meet if economists are to help as we should in promoting an effective education in political economy, to say nothing of popular education in its other phases. There is a great deal of truth in the popular charge that we are academic. If we are to help promote the best legislation about matters that lie at the basis of our national progress and existence we must be better informed. If we are to teach in a way that counts, we must have more intimate touch with practical affairs. Each of us should spend one-fourth to one-half of his time doing practical work in his special field, and then each who learns anything in the practical world should have sufficient substantial reasons to return to and continue teaching. Some progress has been made in this direction, but not nearly enough. As long as department heads, deans, university presidents, and trustees, follow the alleged dictum attributed to an administrative officer of a western university, that "Professors is cheap," they are likely to have a large percentage of cheap professors, as well as to reduce the effectiveness of capable men who are willing to crucify the flesh for the sake of their faith and for their love of the truth. There is no economist here who cannot do something to promote the effective education which Professor Carver and all of us consider the *sine qua non* of progress.

HARRY GUNNISON BROWN.—In discussing Professor Carver's paper, I am going to take upon myself the burden of voicing a vicarious protest. The protest to which I am about to give expression is made in behalf of those conservative economists who write most of our text books in the field of general or elementary economics and in the field of taxation. It is not unlikely that these economists fail to realize all the implications of Professor Carver's analysis and proposals. But if they should come to realize these implications, they could not, without inconsistency, do otherwise than protest.

The gist of Professor Carver's argument is that incomes from labor

are unequal because some lines of activity are relatively under-provided with workers and some are relatively crowded. This means that at present we have not "a balanced economic system." And the suggested remedies include an educational program which will make it more easily possible for those who are in the so-called lower ranks of labor, or for their children, to be recruited into the so-called higher ranks.

It happens that there is a school of thinkers and writers on economic subjects, to whose economic philosophy that of Professor Carver approaches perilously close, who emphasize another aspect of the lack of balance of our economic system. They do not often complain that our system is out of balance because some get little for very hard work and others much for easy work. They point out, rather, that while the many work hard and get relatively little, there are some who get large incomes without doing for these incomes any work at all or rendering any service at all. I refer, in this connection, to the single taxers. Their view is that the rental yield of land is the result of natural advantages and of population growth, and that the individual recipient of this rental yield is in receipt of an income for which he is rendering and has rendered no service to those from whom such rental income is derived. Even though Smith, for example, has bought his land of Jones and paid for it in earned wealth, he has, in this view, merely purchased the privilege previously enjoyed by Jones, of getting something for nothing from the rest of the community. And it is Jones whom he has paid for this privilege, and not those whom he is about to exploit. So far as they are concerned, Smith's purchase from Jones involves but a change of parasites of which the landless exploited are the victims.

But the plan proposed by single taxers as a means of restoring the balance in this regard is not usually favored by the writers of elementary text books on economics or by writers of books on taxation. The principal objection felt and usually the principal objection stated is the objection of vested rights. The *New Republic* phrased the sentiment in an editorial article of June 7, 1919, in which opposition was expressed to the single tax as a means of destroying "existing values" and of "changing the rules of the game while the game is in progress." Influenced by a like feeling, most professional economists have, on this matter, contented themselves with advocating only the taxation of *future increases* in the value of land. Very few of the writers of our current textbooks urge doing more. To urge even this, however, is not consistent with objections to destroying "existing values," or with objections to "changing the rules of the game while the game is in progress." For the present value of a piece of land is the result of an estimate of its future yield. If its future yield is believed likely to be greater than its present yield, and if, therefore, its salable value is expected to be larger some years hence than now, its present salable value is also enhanced by virtue of this expectation. But to plan, as a new program, heavy taxation of the future increase

is, in so far, to destroy the expectation and to do away with that part of the present value which is dependent upon it. A gradual increase in the rate of taxation on land values in general might conceivably lower present selling values of land no more than the prospect of heavy rates on future increases of rental yield. Opposition to reduction of present salable values as an unwarranted interference with vested rights can hardly, with consistency, therefore, be raised in the case of the one plan without being raised in the case of the other also.

Let us now return to the theme of Professor Carver's paper from which we have more apparently than really wandered. Particularly let us note the suggestion of the extension of publicly provided education as a means of establishing "a balanced economic system." My contention is that Professor Carver's proposed policy, like the single tax on the rental value of land, would violate the principle of vested rights, would be a means of "changing the rules of the game while the game is in progress," and so can not consistently be supported either by conservative economists in general or by most of the writers of economic textbooks in particular.

That the further development of publicly supported education, not primarily to secure intelligent citizenship as such but for the express purpose of establishing "a balanced economic system" by more nearly equalizing opportunity, violates the principle of vested rights, is not difficult to show. Here, for example, is a man who has trained himself to be an electrical engineer. He may have been born in poverty. His opportunities for training had to be made use of by tremendous effort and at tremendous sacrifice. Lured on, however, by the prospect of large rewards in the engineering profession, he has made the effort and the sacrifice that many will not and that others cannot make and has prepared himself to enjoy these relatively high rewards. Had the prospective rewards been less high, he perhaps would not have been willing to undergo the incident sacrifices. He has married and has become a parent on the strength of the probability of his continuing to enjoy high rewards. Society has permitted him to think that he might enjoy them and in the faith that public policy in the matter would not change he has committed himself in the above-described and perhaps other ways. He is still young. Greatly increased competition will prevent his securing, in the future, the income on which he had confidently counted, for which he made the otherwise not-to-be-undergone sacrifices, on the expectation of which he is committed to marriage and parenthood. Now it is proposed that for the purpose of establishing "a balanced economic system," young men who would otherwise have been clerks, artisans, or unskilled laborers shall be trained for his kind of work at public expense, shall be made his competitors, shall reduce the amount that he can earn through all the remainder of his life. Is not this "changing the rules of the game while the game is in progress"? Is not this a violation of vested rights? Is not the change in policy parallel in this regard to the change in policy which is urged by single-taxers? It is true that there is no reduction in the value of

a *salable* good, since a man's earning power is not ordinarily the subject of sale and purchase. But he does not thereby suffer a smaller injury. The difference, indeed, would seem to be a difference between tweedledee and tweedledum. He has not even the offsetting gain which the average landowner would have from an application of the single tax, of a reduction in his taxes other than on land.

The parallelism must be admitted. The typical writer of American textbooks on economics and taxation must, if consistent, refuse to endorse Professor Carver's paper. It will not do to argue that the proposal to equalize opportunity is likely to benefit the great majority. This is cogently argued by single taxers with regard to the increase of taxation of land values. If vested rights is a good enough argument in the latter case—and it is the argument which usually counts most, whatever else may be said against the proposal—it should be a good enough argument in the former case, and it should be a good enough argument for conservative economists to use against any proposed reform which seems likely to cause loss or decreased income to any group of persons.

I can hardly expect that these various considerations will be likely, in the minds of any considerable number of professional economists, to discredit the whole doctrine of vested rights. But if there be any economist present who has any suspicion that this doctrine ought to be pretty much discredited, I shall not endeavor to withhold from him my sincere sympathy nor shall I deny my personal acceptance of a like view.

J. E. LE ROSSIGNOL.—As Professor Carver intimates, there are at least two kinds of balance in the industrial system,—a ratio of equality such as obtains in exchange when there is temporary or relatively permanent equilibrium of supply and demand, and a ratio or proportion in which quantities or qualities are combined in order to produce a desired result. For the sake of precision in the use of terms it might be well to call the former ratio a true balance in the primary sense of that word, and the latter a quasi balance or balance by analogy. Certainly, exchange involves a real balance of supply and demand, whether equally satisfactory to both parties or not; and a combination of elements or factors in a business, a prescription, a work of art, or a person's character is not a real balance of equals against equals, no matter how satisfactory it may be. Such a distinction is a mere quibble, perhaps, and, yet, it may serve to keep in mind the fact that the voluntary exchanging of quid pro quo is the basic principle of our economic system, and that any other balance, such as a particular combination of the factors of production, is secondary or derived from it.

Of course, neither the one sort of balance nor the other is desirable for itself alone, but only in so far as it contributes to certain ideal ends. For example, exchange at any price involves a balance or equilibrium, even though the stronger bargainer may gain far more than the weaker; and in an aristocratic society this might be considered fair by both

parties. In a democracy, on the contrary, where ideals of freedom and equality prevail, a satisfactory exchange may be thought to be such a balance or equilibrium as will afford a maximum of satisfaction to both parties taken together. Similarly, in an aristocracy an industrial system might be regarded as well-balanced though composed of a few exclusive and highly paid professions and many overcrowded and poorly paid trades; whereas, the industrial system of a democracy would hardly be pronounced ideal if it did not secure both the greatest possible production and the greatest possible diffusion of wealth and income.

Scientists speak of a balance in nature when conditions of life are such as to permit the various animals and plants of a given region to live and multiply, even though some are devoured by others. The Athenian social organization of the time of Perikles was doubtless satisfactory to the ruling classes, even though it was supported by the labor of thousands of slaves and by tributes from scores of subject cities. Moreover, that civilization is commended by some people to-day, because of its great and permanent contributions to the art and literature of the world. Indeed, our own industrial system, with all its faults, is regarded by many as fairly well balanced in normal times, and there are those who doubt whether much can be done in the way of improving the balance without disturbing the foundation which makes balance possible.

The foundation of our present industrial system is the primary balance or equilibrium of exchange under freedom of contract, and Professor Carver does not wish to disturb this, but rather to make it still more free in order that the factors of production may be combined in the most desirable ratios to the end that production may be maximized and wealth and income may be distributed in the most equitable way. Under such conditions men would add and subtract units of all the factors until in every business and industry the point of equi-marginal productivity was reached, when, of course, production would be maximized. Both capital and labor would move freely from place to place, and from industry to industry, until rates of interest would be equalized, though not necessarily very low, while wages and profits also would be equalized, yet sufficiently high to give business men, craftsmen, unskilled laborers, and college professors a decent living. Thus would be realized the democratic ideals of production and distribution. Of course, inasmuch as men are unequal, there is a certain natural aristocracy which would have to be recognized if the best results were to be attained, for the most perfect freedom of contract could give at best equality of opportunity and not equal treatment of unequals.

Apparently, the ideal state of balance which Professor Carver has in mind is nothing less than the perfect competition imagined by economists; and the beneficial results, if they could be realized, would be economic harmony brought down to earth. Toward this desirable consummation not only business men could contribute, but the state could do its part, not by fixing prices and wages, nor by public owner-

ship and excessive control of industry, but by laying down the rules of the game and seeing to it that they were enforced in every particular and altered as changing conditions might require. Thus a desirable synthesis and harmony would be brought about between the principles of *laissez faire* and social control, and this balance also should be attended by most desirable results.

CHARLES E. PERSONS.—Professor Carver's proposal suggests several highly important prerequisites. Before we achieve a balanced economic system there must be:

1. Substantial equality of possessions in land and capital goods, for there will not be that "equality of prosperity" which is "the first sign or symptom of a balanced industrial system" so long as one class may add to the income derived from the sacrifice of labor an income of rent, or interest, or both. Nor yet will the "marginal productivity" of labor be approximately the same in each and every occupation, at least if measured in the utility of the goods produced, so long as one set of laborers produces goods of luxury for satiated capitalists and landlords while others produce goods of necessity for capital-less and land-less workers.

2. The laborers who are to receive power because of their scarcity must become possessed of knowledge and wisdom commensurate with the power attained. A "voice in the management of business" will not be given laborers, however scarce, unless it is reasonably certain that they will not ignorantly or recklessly exercise their powers. To do so would reduce our system from balance to chaos. Careful study of the history of labor will suggest that labor's claims have been recognized to the degree that they have displayed wisdom in proportion to their demands. Of equal necessity to this growth of wisdom on the part of labor is education of the present capital and landlord classes to welcome the proposed changes. The Black Death operated as a powerful force inclining the scale toward a proper balance, but we nowhere read that the ruling and possessing classes either appreciated or welcomed the change; and recent events are full of suggestions that this part of the necessary education preceding a balanced industrial system is still incomplete.

3. This is to be a balancing *up*. Not down to the "ribbon clerks and preachers" but up to the "cooks and capitalists" is the direction of the balancing process. It is prosperity, not poverty, which is to be diffused. This is to say again that through education there is to be general ability joined to high standards of living, which result in less rapidity of reproduction and a scantier labor supply. This is a proposition affecting not the few but the many. We are to reach and lift, not the prosperous 10 per cent, but the 90 per cent less prosperous in our population.

4. Like all schemes for social amelioration, this balanced industrial system is backed by a certain social philosophy. Before it comes into successful operation society must be permeated by this doctrine. We

may permit ourselves a glance into the prophetic future when the social philosophers building on the efforts of the past continue the balancing process, progressively reducing the labor sacrifice by continually increasing dependence on scientific utilization of the land supply and an expanding supply of capital goods of excellence and all-pervading presence not yet suspected. Here is a field for speculation truly exhilarating! How much would, or should, men labor when prosperity is diffused? The answer will perhaps depend on the degree of our acceptance of the "workshop" philosophy.

The crux of the suggestion contained in Professor Carver's stimulating paper seems to lie in the possibility of attaining a greater—indeed a great—measure of equality in the abilities of men. Prosperity, freedom, and power are all to be diffused. This will hardly come to pass until the average man can say to the ruling and possessing classes, with truth as he now frequently does with heat, and has said for many past generations: "By what authority do you withhold these good things for yourselves? Am I not equally capable and deserving with you? Will not mankind gain equally with myself if these gifts are bestowed on me?" In point of fact the answer to these questions has always been: "No" and will continue to be "No" until ability and wisdom go with discontent.

Can such ability be diffused? It would be a rash man who would answer confidently that it could in any brief space of time, or yet that it could be completely done in generations or centuries. Consider the population of our backward sections, the dregs of a mobile population, and our millions of illiterate immigrants of whom a large percentage come from the most backward countries of Europe. Add to these our millions of negroes, ignorant, care free, and with lamentably low standards of living. We have no certain nor convincing evidence as yet of the part played by heredity in perpetuating these classes, and with them our ill-balanced social system. Passing that and granting to education the largest scope and an immensely enlarged field, we are yet faced with the difficulties inherent in the social inheritance. Children are born into homes, families, and environments such as their parentage suggests and supplies. We cannot incubate a new generation, watch over it with brooding care during its infancy, and hand it over to our educational agencies untainted by contact with our ill-balanced social and industrial system. For the earliest and most impressionable years children are not reached by the outside force of education and uplift at all. It is difficult to conceive that they can be so reached. Later they spend most of their youthful years under the same home influence. If the home and surroundings are stimulating in all good things, the result is very good. If their influence is narrowing, deadening to ambition, repressive to good impulses, lacking in educative effect, the result will correspond. And the social philosopher must be abundantly armed with patience in his balancing-up endeavor. Doubtless something could be done at once and more rapid progress achieved as we gain wisdom in and through

our endeavors. We go all the way with Professor Carver in believing that all gains are to the good. But we can only expect progress to be slow and results incomplete.

The conclusion would seem to be that the proposal under discussion must depend for its realization on the injection of a great degree of equality into our society so far as the ability to supply economic needs goes. This is a work of tremendous difficulty and impossible of achievement so far as those qualities prove to depend on inheritance. Yet something can be done and the effort, even if slow in producing results, is desirable; both for the results obtained and for the insight gained into future lines of attack on our inequalities of power, freedom, and prosperity.